

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 IO-13 ADP-00 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NEA-10 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

OIC-04 PA-03 PRS-01 USIA-12 SS-15 NSC-10 L-03 H-02

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FM USMISSION OECD PARIS

TO SECSTATE WASHDC PRIORITY 9894

INFO AMEMBASSY TOKYO PRIORITY

AMEMBASSY LONDON PRIORITY

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C O N F I D E N T I A L SECTION 1 OF 2 OECD PARIS 16037

ECOTO 22

1. SUMMARY FOLLOWING OECD MINISTERIAL MEETING ON JUNE 8 IN PARIS, UNDER SECRETARY CASEY, AMBASSADOR EBERLE AND AN INTERAGENCY GROUP INFORMALLY REVIEWED SOME OF THE MAIN US- EC TRADE ISSUES WITH A COMMISSION GROUP HEADED BY SIR CHRISTOPHER SOAMES. THE US SIDE CONVEYED ITS CONCERN ABOUT THE TARIFF HARMONIZATION. SAFEGUARDS AND AGRICULTURE FEATURES OF THE EC MANDATE. EC CONFIDENTIAL

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SHOWED NO GIVE IN ITS APPROACH TO SOLVING REVERSE PREFERENCE ISSUE. US STRESSED THE SERIOUSNESS OF THE ARTICLE XXIV: 6 ISSUE. ON ALL THESE POINTS THE COMMISSION MADE CLEAR THAT CHANGES IN THE COMMUNITY'S POSITION WOULD REQUIRE APPROACHES

IN MEMBER CAPITALS. AS USUAL, THEY SHOWED NO GIVE WHATSOEVER ON EC- EFTA ISSUE. SOAMES ASKED US TO CONSIDER WHETHER, IN VIEW OF OBJECTIVE OF SETTLEMENT ON ARTICLE XXIV:6 AND SATISFACTORY MTN, IT WAS REALLY IN US INTEREST TO PRESS HARD ON ED- EFTA AND EC- SPAIN, ISRAEL ARRANGEMENTS WHICH WOULD MERELY PROVOKE ACRIMONIOUS AND COUNTERPRODUCTIVE CONFRONTATION. END SUMMARY.

2. MTN - AT CASEY' S REQUEST, SOAMES DESCRIBED STATE OF PLAY OF COMMISSION' S " VUE D' ENSEMBLE." OUTSTANDING ISSUES ARE AGRICULTURE, TARIFFS, SAFEGUARD, AND TRADE- MONEY LINK. PERM REPS INSTRUCTED TO COME BACK WITH AGREED REDRAFT BASED ON COMMISSION DRAFT BY JUNE 24.

3. RE TARIFFS, CASEY STRESSED THAT STRESS ON HARMONIZATION AND EC NEGATIVE POSITION ON ZERO DUTY WOULD CAUSE PROBLEMS ON HILL. FORESWEARING ZERO DUTIES IN EC MANDATE IS LIKELY TO LEAD CONGRESS TO PLACE LIMITATIONS ON PRESIDENT' S AUTHORITY TO REDUCE TARIFF LEVELS. IN DISCUSSION DURING WHICH EC SIDE PROBED US CONCERNS, US SIDE POINTED OUT COMBINATION OF HARMONIZATION AND TARIFF FLOOR WOULD IMPLY US WOULD BE MAKING BULK OF CONCESSIONS, OBVIOUSLY UNACCEPTABLE.

4. WITH RESPECT TO FLOOR CONCEPT, US SIDE POINTED OUT THAT IN MANY CASES IT WOULD BE DESIRABLE TO ELIMINATE LOW DUTIES; ESPECIALLY WHERE EFFECTIVE RATE OF THE TARIFF COULD BE HIGH. EC SIDE POINTED OUT COMMISSION DRAFT PAPER PROVIDED MANY EXCEPTIONS TO FLOOR. US PREFERS THAT EC AVOID STATING LIMITATIONS ON POSSIBLE TARIFF CUTS. SOAMES FELT WORLD NOT READY FOR ZERO TARIFF, BUT 50 PERCENT WAS TOO LIMITING. HIJZEN SAID COMMISSION WANTED A FORMULA UNDER WHICH SOME DUTIES COULD GO TO ZERO BUT NOT ALL.

5. RE MONETARY- TRADE LINK, US SIDE MADE CLEAR ITS CONCERN ABOUT POSSIBILITY NEGATIVE LINK BEING INTRODUCED INTO EC MANDATE.

6. RE AGRICULTURE, US SIDE URGED EC AVOID BRINGING ISSUE TO A HEAD
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THROUGH POSTURING NOW ABOUT SHAPE OF FUTURE NEGOTIATIONS. IN SUBSEQUENT DINNER MEETING, RABOT IN RESPONSE TO QUESTION ABOUT EC MANDATE ON AGRICULTURE SAID HE THOUGHT AGRICULTURAL NEGOTIATION SHOULD INVOLVE SOME FORM OF ARRANGEMENT ON GRAIN PRICES-- INCLUDING DOMESTIC PRICES, A CODE OF GOOD CONDUCT ON EXPORT SUBSIDIES, AND ARRANGEMENTS ON BUFFER STOCKS AND FOOD AID. (COMMENT: ESSENTIAL IF WE ARE TO ACHIEVE ANYTHING ALONG THESE LINES THAT LANGUAGE IN EC MANDATE ON AGRICULTURE BE LOOSE ENOUGH TO PROVIDE NEGOTIATING LATITUDE.) SUBSIDIES, AND ARRANGEMENTS ON BUFFER STOCKS AND FOOD AID.

7. RE SAFEGUARDS, US SIDE URGED EC NOT TO PRECLUDE ANY OPTIONS WHICH WOULD BE THE CASE IF NO PROVISION FOR SAFEGUARDS IN

MANDATE. US DRAFT LEGISLATION LEAVES ALL OPTIONS OPEN. US SIDE IN RESPONSE TO EC PROBING AS TO US INTENTION WITH RESPECT ART XIX STATED PROBABLY NOT NECESSARY TO MODIFY ARTICLE WHICH WOULD CONTINUE TO BE APPLIED IN NON- DISCRIMINATORY FASHION BUT SUPPLEMENTARY MULTILATERAL AGREEMENT WOULD ALLOW FOR NON- COMPENSATORY SAFEGUARDING ACTION BY IMPORTING COUNTRY. IT WAS NOT EXCLUDED THAT UNDER MULTILATERAL ARRANGEMENT SAFEGUARDS MIGHT BE APPLIED IN SELECTIVE FASHION.

8. AT CASEY'S REQUEST, AMBASSADOR EBERLE DISCUSSED PROSPECTS AND TIMING OF THE BILL SOAMES DISCUSSED NEXT STEP RE COMMISSION MANDATE. US SIDE POINTED OUT JULY PREP COM MUST PREPARE TOKYO DECLARATION AND, IF US AND EC CANNOT RESOLVE MUTUAL DIFFICULTIES ON OBJECTIVES, THIS WOULD MAKE IT DIFFICULT TO WORK OUT ACCEPTABLE DECLARATION. AT JULY PREP COM US AND EC SHOULD TRY TO WORK OUT IN DRAFT DECLARATION SCOPE, PROCEDURE, OBJECTIVES AND TIMING FOR MTN TO BE PRESENTED TOKYO MEETING. US AND EC SIDES AGREED ON NEED TO WORK TOGETHER ON JULY MEETING, ESPECIALLY IN VIEW OF ANTICIPATED LDC TACTICS.

9. PREFERENCES. EC SIDE CONFIRMED THERE WAS NO CHANGE IN COMMISSION POSITION THAT COUNTRIES WITH WHICH COMMUNITY CONCLUDES FREE TRADE AGREEMENTS COULD REDUCE TARIFFS TOWARDS THE US AND OTHER COUNTRIES. IN RESPONSE TO PROBING, COMMISSION SAID THERE WAS NO DISTINCTION AS TO COUNTRIES WITH RESPECT TO WHICH THIS POSITION WAS APPLICABLE, INCLUDING EFTA. EC CLAIMED IT WAS UP TO THE COUNTRY IN QUESTION WHETHER TO REDUCE ITS MFN TARIFFS UNILATERALLY OR AS A RESULT OF RECIPROCAL BARGAIN. US CONFIDENTIAL

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SIDE URGED EC TO RECONSIDER BECAUSE OF POLITICAL PROBLEMS AND NEGOTIATING BURDENS SUCH AN APPROACH WOULD CAUSE. SOAMES MADE CLEAR COMMISSION COULD NOT WITHDRAW ITS PROPOSAL AND THAT IT WAS NOW UP TO MEMBER STATES. HE THOUGHT THAT COUNCIL WOULD GO ALONG WITH COMMISSION PROPOSALS, DESPITE INDICATIONS US HAD RECEIVED THAT SOME MEMBER STATES WOULD OPPOSE REVERSE PREFERENCES, BECAUSE THERE WAS NO LEGAL ALTERNATIVE TO FREE TRADE AREA. IN RESPONSE TO QUESTION ON TIMING OF MANDATES, WELLENSTEIN REPLIED COMMISSION HOPED TO HAVE SPAIN, ISRAEL, MALTA, AND MAGHREB MANDATES BEFORE SUMMER RECESS. AFTER

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P 092011 Z JUN 73

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ECOTO 22

SUMMER COMMISSION WOULD TAKE TEMPERATURE ON REVERSE PREFERENCES WITH RESPECT TO YAOUNDE. COMMISSION INSISTED AFRICAN COUNTRIES DID NOT NEED TO OPT FOR YAOUNDE TYPE AGREEMENT BEFORE JULY 26-28 PE- CONFERENCE AND INSISTED ALSO THAT INVITATION TO NEGOTIATE WOULD NOT BE DEPENDENT ON COMMITMENT TO REVERSE PREFERENCES.
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10. ARTICLE XXIV:6. AMBASSADOR EBERLE OPENED DISCUSSION BY STRESSING POTENTIAL FOR SERIOUS CONFRONTATION IN LOOMING PROCEDURAL AND SUBSTANTIVE STALEMATE. A BARGIN MUST BE STRUCK BY JULY 31 OR CONSIDERATION OF TRADE BILL WOULD BE ADVERSELY AFFECTED. HE CITED THE THREE ISSUES FOR NEGOTIATION -- GRAIN RIGHTS, AGRICULTURAL IMPAIRMENT AND INDUSTRIAL IMPAIRMENT. WITH RESPECT TO THE LATTER TWO, THERE WERE SPECIFIC PRODUCTS ON WHICH US HAS CLAIM FOR IMPAIRMENT. MOREOVER, OUR ANALYSIS INDICATES QUALITATIVELY THERE HAS BEEN INADEQUATE COMPENSATION FROM TARIFF DECREASES. GIVEN COMMUNITY POSITION THAT WE ARE NOT OWED ANYTHING, EBERLE CONCLUDED WE WERE ON COLLISION COURSE WITH POSSIBLE DIRE CONSEQUENCES. SOAMES AGREED WE WERE ON SUCH COURSE. EC, HE SAID, DOES NOT ACKNOWLEDGE ANY DEBT OVERALL TO US BECAUSE THE GAIN TO US IN INDUSTRY

WAS GREATER THAN ANY LOSS IN AGRICULTURE. EBERLE OBJECTED TO EC PROCESS OF WORKING OUT COMPENSATION TO US WITHOUT NEGOTIATION. WE HAVE MADE ALL SORTS OF ANALYSES AND THE BENEFITS WERE FAR OUTWEIGHED BY THE SPECIFIC IMPAIRMENTS, PARTICULARLY IN AGRICULTURE. FOX POINTED OUT THAT THERE WAS NO BENEFIT TO US IN CASES WHERE EXTERNAL TARIFF SLIGHTLY REDUCED WHILE INTRA- EC TARIFF BEING ELIMINATED. THIS PROVOKED EC SIDE TO HEATED INSISTENCE US POSITION WAS CONTRARY TO LETTER AND SPIRIT GATT PROVISIONS ON CUSTOMS UNIONS, THAT IN EFFECT US WAS DEMANDING PAYMENT FOR ENLARGEMENT EC CUSTOMS UNION. US SIDE MADE CLEAR IT WAS NOT DEMANDING PAYMENT FOR CUSTOMS UNION AS SUCH BU ARGUED IT HAD RIGHT TO CONSIDER NEW COMPETITION FROM WITHIN CUSTOMS UNION IN EVALUATING REDUCED TARIFFS PUT FORWARD BY EC AS COMPENSATION. GUANDELACH, WHO HAD ARGUED MOST STRONGLY AGAINST LEGALITY OF CONSIDERING NEW INTRA- EC ZERO TARIFF AND AGREED WITH CASEY AT DINNER THAT THERE MAY BE MERIT IN CONSIDERING THEM IN VALUING COMPENSATING BENEFITS FOR BINDINGS WITHDRAWN. IT WAS MADE CLEAR THAT US HAD MADE ITS OWN ANALYSES AND CALCULATIONS OF BENEFITS ACCRUING TO IT FROM REDUCTIONS IN CXT AND CONCLUDED THAT IT HAS SPECIFIC IMPAIRMENTS WHICH REQUIRE FURTHER COMPENSATION. EC SAID THEIR CALCULATIONS SHOWED BULK UK TARIFF INCREASES CONCENTRATED IN 10-12 ITEMS TO WHICH US REPLIED 496 INDUSTRIAL ITEMS WERE RAISED. DISCUSSION REVOLVED ABOUT CONFLICTING INTERPRETATIONS OF GATT, WITH US INSISTING THAT IF BULK OF TARIFFS ARE REDUCED IN CASE

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OF FORMATION CUSTOMS UNION AND ONLY A FEW TARIFFS ARE RAISED, THIRD PARTY HAS RIGHT TO COMPENSATION FOR ITEMS RAISED, AND OFF-SETTING BENEFITS ARE SUBJECT TO EACH SIDE'S CALCULATION AND NEGOTIATION. EC SIDE CLAIMED US WAS NOT TAKING INTO ACCOUNT BENEFITS, WHILE US SIDE CLAIMED EC HAD IN EFFECT MADE ITS OWN CALCULATION AND WAS UNWILLING TO NEGOTIATE. US COULD NOT ACCEPT A "NO-DEBT" POSITION BUT WAS WILLING TO NEGOTIATE WHAT WAS A SATISFACTORY ACCOMMODATION. FOLLOWING EBERLE'S REMARKS ON POLITICAL IMPORTANCE OF ARTICLE XXIV:6 SETTLEMENT, SOAMES CONCLUDED THAT EC HAD TAKEN A "NO-DEBT" POSITION BUT WOULD HAVE TO DISCUSS THIS MATTER FURTHER IN COMMISSION AND EC COUNCIL. HE ACKNOWLEDGED FORCEFULNESS AND CLARITY OF US PRESENTATION AND SAID IT WOULD BE TAKEN INTO CONSIDERATION ALTHOUGH HE STILL HAD "SERIOUS DOUBTS" ABOUT COMPENSATION. HE SAID MEMBER STATES HAD STRONG IMPRESSION AS RESULT OF WHAT HAD BEEN SAID IN GENEVA THAT US WAS TAKING EXTREME POSITION AND DEMANDING PAYMENT FOR ENLARGEMENT OF CUSTOMS UNION. EC SIDE SAID US CONCEPTUAL ARGUMENT IS CONSIDERED TO BE LEGALLY WRONG IN CAPITALS AND WAS POLITICALLY UNSOUND. SOAMES POINTED OUT ONLY TWO COUNCIL OF MINISTER MEETINGS LEFT BEFORE AUGUST RECESS (JUNE 24-25, JULY 25-26) AND IMPLIED THERE WAS LITTLE TIME LEFT TO AFFECT MEMBER STATES' POSITIONS. SOAMES POINTED OUT EC CAPITALS NOT CONVINCED USG IS SERIOUS ABOUT ARTICLE XXIV:6. US SIDE REPLIED THAT DOMESTIC DEBATE HAS BEEN DELIBERATELY LOW-KEYED TO AVOID HARDENING OUR NEGOTIATING POSITION AND CREATE ATMOSPHERE OF

CONFRONTATION. US NONETHELESS VERY SERIOUS ABOUT ARTICLE XXIV:6, BELIEVED A PACKAGE OF NEW CONCESSIONS MUST BE PROVIDED IN JULY, AND, FOR EXAMPLE, MADE THIS CLEAR AT REYKJAVIK. (COMMENT: OUR CONCLUSION IS THAT IT IS VITAL TO MAKE STRONG PRESENTATIONS TO CAPITALS ON OUR 24:6 POSITION BEFORE JUNE 18 ARTICLE 113 COMMITTEE MEETING. IN ANY EVENT WE WANT TO AFFECT NATIONAL POSITIONS BEFORE SOAMES RAISES ISSUE IN COUNCIL ON JUNE 25. SEE SEPTEL ON MISSION UNDER SECRETARY CASEY HAS DISPATCHED TO EC CAPITALS.)

11. IN RESPONSE TO QUESTION, EC SIDE APOLOGIZED FOR DELAY IN RESPONDING TO US LETTER ON OPENING NEGOTIATIONS ON GRAIN STANDSTILL RIGHTS AND ASSURED AS AN ANSWER WOULD BE FORTHCOMING SOON AGREEING TO OPEN NEGOTIATIONS.

12. EC- EFTA AND EC- SPAIN, ISRAEL. IN DINNER DISCUSSION WHEN
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US SIDE RAISED THESE TWO ISSUES INDICATING INTENTION TO PROCEED TO PRESS CASES FOR IMPAIRMENT, SOAMES HEATEDLY RETORTED EC FELT IT OWED NOTHING TO CASE OF EFTA ARRANGEMENT. HE SAID ARTICLE XXIV:6 PROBLEM WAS DIFFICULT ENOUGH IN VIEW OF CONFLICTING LEGAL POSITIONS AND CLAIMS, BUT HE HAD SOUGHT TO INDICATE THAT POLITICAL SETTLEMENT MIGHT BE POSSIBLE AT END OF THE ROAD. THERE WAS NO RPT NO CASE ON EFTA AND HE ASKED US SERIOUSLY TO CONSIDER WHAT RESULTS WOULD BE OF PRESSING THIS ISSUE, AND EC- SPAIN AND ISRAEL. HE HAD THOUGHT ARTICLE XXIV:6 SETTLEMENT AND MTN WAS ENOUGH ON THE PLATE. IF US KEPT TAKING ALL THESE SMALL AND BAD CASES TO COURT, IT WOULD PROVOKE BAD REACTION IN EUROPE, US WOULD NOT GET ANYTHING AND ATMOSPHERE FOR MTN WOULD BE SPOILED. EBERLE REPLIED US FELT IT HAD A RIGHT TO TAKE UP PROBLEMS WITH EC WHEN TRADE WAS BEING HURT AND CITED RULES OF ORIGIN AS CASE IN POINT. GUNDELACH, WHILE INSISTING THAT EC HAD NO OBLIGATION TO US ARISING FROM EFTA ARRANGEMENT, CLAIMED AS A PRACTICAL MATTER EC WAS ADAPTING ITS RULES IN THE LIGHT OF DIFFICULTIES COMING TO LIGHT, INCLUDING IN THE LIGHT OF US PROBLEMS BEING MADE KNOWN IN GENEVA. HE STRESSED THAT EC COULD ONLY FOLLOW THIS PRAGMATIC COURSE IF US WOULD NOT RAISE ISSUE OF RULES OF ORIGIN AS MATTER OF RIGHT AND PRINCIPLE.
CASEY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 15 APR 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 09 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973OECDP16037
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1973/newtext/t19730636/dccbkabv.tel
Line Count: 317
Locator: TEXT ON-LINE
Office: n/a
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 08 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08-Aug-2001 by kellerpr>; APPROVED <13-Sep-2001 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 19990416
Subject: OECD MINISTERIAL MEETING ON US-EC TRADE ISSUE
TAGS: ETRD, BE, US
To: STATE INFO TOKYO
LONDON
PARIS UNN
ROME
BRUSSELS
THE HAGUE Y
BONN

COPENHAGEN
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EC BRUSSELS UNN
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Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005